

Message Text

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47

ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ADP-00 AID-20 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-15 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-02 PA-03 PRS-01 USIA-12 ABF-01 RSR-01

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FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 9379

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY ATHE HAGUE

AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

AMCONSUL MILAN

AMCONSUL NAPLES

UNCLAS ROME 5593

E. O. 11652 N/ A

TAGS: EFIN, IT

SUBJ: ANTI- INFLATION CREDIT MEASURES

PASS TREASURY AND RFB

REF: ROME 7413, DECEMBER 5, 1972

1. / SUMMARY/. INTERMINISTERIAL CREDIT COMMITTEE JUNE

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18 INCREASED CENTRAL BANK INTEREST RATE ON SOME FIXED- TERM ADVANCES AND WILL REQUIRE ITALIAN BANKS TO INCREASE THEIR INVESTMENTS, ESPECIALLY IN NON- GOVERNMENT FIXED- TERM SECURITIES. GOI ALSO ANNOUNCED FOREIGN EXCHANGE AVAILABILITIES CONSISTING OF OFFICIAL RESERVES, EC BORROWING RIGHTS AND US SWAP AGREEMENT TOTALLING OVER \$8,700 MILLION. MEASURES WERE DESIGNED TO REDUCE SPECULATION IN EXCHANGE MARKETS AND TO REALLOCATE CREDIT TOWARD LONG- TERM INVESTMENT PURPOSES. LIRA STRENGTHENED IN EXCHANGE MARKETS JUNE 18 (SEE SEPTTEL).

/END SUMMARY./

2. INTERMINISTERIAL CREDIT COMMITTEE INCREASED INTEREST RATE SURCHARGE ON FIXED- TERM ADVANCES FROM BANK OF ITALY TO COMMERCIAL BANKS FROM PREVIOUS 0.5 PERCENT 1.00 PERCENT. BASIC RATE REMAINS AT 5.5 PERCENT BUT BANKS UTILIZING FACILITY FOR SECOND TIME IN SIX- MONTH PERIOD MUST PAY ADDITIONAL 1 PERCENT; FOR THIRD TIME PAY ADDITIONAL 2 PERCENT; AND FOR FOURTH AND SUCCEEDING TIMES ADDITIONAL 3 PERCENT, I. E. MAXIMUM OF 8.5 PERCENT. AS EXPLAINED REFTTEL, FIXED- TERM ADVANCES HAVE VERY SHORT- TERM MATURITY OF 8, 15 AND 22 DAYS AND ARE MEANT TO MEET SHORT- TERM LIQUIDITY NEEDS OF BANKS. AS ON OCCASION OF INCREASE IN BASIC RATE FROM 3.5 PERCENT TO 5.5 PERCENT LAST DECEMBER, MEASURE IS DESIGNED TO MAKE MORE COSTLY SHORT- TERM CREDIT FOR SUCH SPECULATIVE PURPOSES AS BUILD UP OF IMPORTED RAW MATERIAL INVENTORIES AND CAPITAL EXPORTS.

3. SECOND CREDIT MEASURE REQUIRES COMMERCIAL BANKS, EXCEPT RURAL AND ARTISAN BANKS, TO INCREASE DURING 1973 THEIR PURCHASES OF NON- GOVERNMENT FIXED- INTEREST SECURITIES (E. G. BONDS OF INDUSTRIAL CREDIT INSTITUTES, STATE HOLDING COMPANIES AND PRIVATE COMPANIES) EQUAL TO 5 PERCENT OF SAVINGS AND DEMAND DEPOSITS OUTSTANDING AT END 1972. BANKS MUST ALSO INCREASE PURCHASES OF GOVERNMENT FIXED- INTEREST SECURITIES, EXCLUDING TREASURY BILLS, EQUAT TO 1 PERCENT OF SUCH DEPOSITS. ROUGH ESTIMATE OF VOLUME OF SUCH SECURITIES TO BE PURCHASED UNDER NEW REGULATIONS DURING 1973 SHOWS TOTAL OF 3,460 BILLION LIRE, OF WHICH 2,883 BILLION IN NON- GOVERNMENT SECURITIES AND 577 BILLION IN GOVERNMENT SECURITIES. THIS COMPARES WITH TOTAL PURCHASES BY BANKS IN 1972 OF 2,533 BILLION LIRE, OF WHICH 1,225 BILLION IN NON- GOVERNMENT SECURITIES AND 1,308 BILLION IN GOVERNMENT SECURITIES. NEW UNCLASSIFIED

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PURCHASES WOULD REPRESENT BOTH SHARP INCREASE IN TOTAL FIXED- TERM SECURITIES BY BANKS AND SHARP SHIFT TOWARD NON- GOVERNMENT SECURITIES.

4. IN PRESS COMMUNIQUE TREASURY MINISTER POINTED OUT THAT NET OFFICIAL RESERVES NOW TOTAL \$5,674 MILLION, THAT EC SHORT- TERM BORROWING FACILITIES AMOUNTED TO \$1,800 MILLION (1,560 MILLION

UNITS OF ACCOUNT) AND THAT US- ITALY SWAPS AGREEMENT TOTALLED \$1,250 MILLION. IN OTHER WORDS, MINISTER STRESSED AVAILABILITY OF MORE THAN \$8,700 MILLION TO SUPPORT LIRA IN EXCHANGE MARKETS. HE ALSO REFERRED TO CURRENT NEGOTIATIONS FOR ADDITIONAL EURO-MARKET LOANS TO ITALIAN STATE ENTITIES.

5. / COMMENT/: MEASURES TAKEN BY INTERMINISTERIAL CREDIT COMMITTEE ARE AIMED AT ARRESTING DOMESTIC AND FOREIGN DEPRECIATION OF LIRA. DESIRE IS TO MAKE SHORT TERM CREDIT, ESPECIALLY FOR SPECULATIVE PURPOSES, MORE COSTLY AND LESS READILY AVAILABLE AT SAME TIME THAT BANKS SHOULD HAVE TO SHIFT PART OF LENDING ACTIVITY FROM SHORT TO MEDIUM AND LONG- TERM CREDITS. MONETARY AUTHORITIES DID NOT WISH TO REDUCE GLOBAL CREDIT AVAILABILITIES FOR FEAR OF IMPEDING ECONOMIC RECOVERY BUT MERELY TO REALLOCATE CREDIT. INCREASED AVAILABILITY OF MEDIUM AND LONG- TERM CREDIT FOR FIXED INVESTMENT WOULD HELP RECOVERY AND INCREASE PRODUCTIVITY AND INTERNATIONAL COMPETITIVENESS OF ITALIAN INDUSTRY. GOI POINTS OUT THAT CREDIT MEASURES WILL BE PART OF BROADER ANTI-INFLATION PACKAGE WHICH WILL GO OUTSIDE LIMITED COMPETENCE OF INTERMINISTERIAL CREDIT COMMITTEE. VOLPE

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